

Rating **Neutral**
12- Month Target Price **SAR 59.00**

ALMARAI COMPANY
1Q2019 First Look

Expected Total Return

Price as on April- 7, 2019	SAR 55.90
Upside to Target Price	5.5%
Expected Dividend Yield	1.5%
Expected Total Return	7.0%

Market Data

52 Week H/L	SAR 62.8/40.8
Market Capitalization	SAR 55,900 million
Shares Outstanding	1,000 million
Free Float	21.7%
12-Month ADTV	387,121
Bloomberg Code	ALMARAI AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC Est.	Actuals
Sales	3,168	3,354
Gross Profit	1,188	1,210
Net Income	321	336
EPS (SAR)	0.32	0.34

Revenues Grow But EPS Declines

Almarai posted 1Q 2019 earnings at SAR 336 million (-3% Y/Y, -9% Q/Q), in line with our expectations of SAR 321 million. It is heartening to note a +4% Y/Y growth in revenues led primarily by the poultry and bakery categories while fresh dairy and juice remain subdued. Gross margins shrunk to 36% this quarter versus 39% last year as higher alfalfa and feed costs weighed in. The cost savings program is yielding results with a decline in admin costs. On a yearly basis, revenues within KSA increased by +4% but were almost flat in other GCC countries while Egypt has also witnessed some growth. We have revised our forecasts going forward resulting in an increase in the target price to SAR 59.00 from SAR 54.00 previously. We maintain a Neutral rating.

Revenues grow +4% Y/Y

We are encouraged with the +4% rise in revenues to SAR 3.35 billion, beating our expectations and reversing a negative Y/Y growth in topline experienced in each quarter of 2018. Poultry has been the primary driver of this revenue growth followed by bakery while weakness in dairy and juice segments continued into 1Q as well. In terms of geography, growth was witnessed in both KSA and Egypt whereas sales in GCC were flat. Profitability from the dairy and juice category continues to suffer due to the tough market situation as well as higher alfalfa costs coupled with promotional activities. Profitability in both the bakery and poultry category has come in on the back of volumetric growth specifically led by rise in HORECA sales.

Gross margins shrink on higher costs

Gross profit witnessed a decline of -4% Y/Y to SAR 1.21 billion as gross margins narrowed to 36% as compared to 39% last year. Higher alfalfa costs and feed costs have largely been responsible for rising cost of sales. Although selling expenses have grown by +2% Y/Y, admin expenses have been curtailed by -1% Y/Y as the cost savings program continues. Financial charges have risen this quarter and we would be keeping an eye out for this going forward. EBITDA has been reported at SAR 852 million for the quarter, a +2% increase Y/Y.

Raise target to SAR 59

Net income of SAR 336 million (-3% Y/Y) was in line with our expectations of SAR 321 million as net margins contracted by 60bps to 10%. We have revised our forecasts and also had another look at our DCF valuations. We now expect a +6% Y/Y growth in net income for 2019 to SAR 2.13 billion coming off a year of lower Y/Y profitability in 2018. We increase the target price on Almarai to SAR 59.00 from SAR 54.00. Trading at a 2019E P/E of 26.2x, we maintain a Neutral stance.

Key Financial Figures

FY Dec31 (SAR mln)	2018	2019E	2020E
Sales	13,723	14,409	14,408
EBITDA	4,261	4,436	4,728
Net Profit	2,009	2,134	2,243
EPS (SAR)	2.01	2.13	2.24
DPS (SAR)	0.85	0.85	0.90

Key Financial Ratios

FY Dec31	2018	2019E	2020E
BVPS	15.64	16.91	18.26
ROAE	13.3%	13.1%	12.8%
ROAA	5.5%	5.1%	5.2%
EV/EBITDA	15.4x	14.8x	13.9x
P/E	27.8x	26.2x	24.9x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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